BEFORE THE
PUBLIC SERVICE COMMISION OF WISCONSIN

Application of Wisconsin Electric Power Company;
Wisconsin Energy Corporation; and W.E. Power, LLC;
For a Certificate of Public Convenience and Necessity
For Construction of Three Large Electric Generation Facilities, the Elm Road Generating Station, and Associated High Voltage Transmission Interconnection Facilities to be Located in Milwaukee and Racine Counties

Docket No. 05-CE-130

COMMENT OF WISCONSIN PUBLIC POWER, INC.

Wisconsin Public Power Inc. (WPPI) submits this comment on the draft Environmental Impact Statement (EIS) for the Elm Road Generating Station (ERGS). The draft EIS provides an assessment of the relative economics of the ERGS project and its environmental impacts. In these comments, WPPI suggests certain revisions to the report that would put into better focus the need for the project and the economic and environmental impacts of the project.

SUMMARY OF KEY COMMENTS

- **Wisconsin Energy's proactive mitigation of potential adverse impacts on wholesale electric competition should be commended and recognized as a significant benefit of the project.** The draft EIS recognizes that the PSC's regulation of the economic terms of the Facility Lease provides protection to retail ratepayers. However, the draft EIS should also recognize the wholesale market mitigation measures that are a key ingredient of the proposal. The wholesale market problem addressed by these measures is the inability of smaller Wisconsin utilities that need new baseload capacity, like WPPI and Madison Gas and

Electric ("MGE"), to construct economic coal-fired capacity on their own. At the same time, their options for purchasing such capacity are very limited because the market in Wisconsin for long-term wholesale baseload power is very tight, in part because of the serious transmission constraints that prevent additional long term firm imports. Without the ability to participate as owners in large baseload projects like the ERGS units, or to buy additional long term wholesale power at average embedded cost rates, the future viability of Wisconsin's smaller utilities will be threatened and their customers could be faced with significantly higher rates. By offering ownership rights in the ERGS units to WPPI and MGE and offering blocks of average embedded cost power from its system to other small utilities that depend on the wholesale market, WEPCO has affirmatively addressed potential adverse competitive impacts of the ERGS project on the wholesale market.

- **The state needs significant new baseload generating capacity, and if there is an error in timing, it should be on the side of adding new baseload resources sooner rather than later.** There should be no dispute that Wisconsin desperately needs additional baseload generation. The existing baseload fleet in the state is aging; Wisconsin has not added any new coal-fired generation in almost 20 years. New generation is required to meet continued load growth and offset inevitable unit retirements in the future. Further, Wisconsin's overtaxed and highly constrained transmission system cannot be relied on to import additional capacity and energy to satisfy Wisconsin's baseload requirements,

which means additional baseload generating capacity must be built within the state.

The ERGS should not be delayed just because a large plant addition may result in a slightly higher than optimal reserve margin for a year or two. The permitting and construction of new coal baseload facilities requires a long lead time. By necessity, new baseload capacity must be installed in large blocks. Given load forecast uncertainty and the long lead time needed to construct baseload generation projects, projects such as the ERGS can not be timed precisely to meet the capacity needs of WEPCO in each year. This is inevitable and must be expected. It should be recognized in the EIS that the impact to ratepayers of any temporary excess baseload capacity can be mitigated through wholesale sales and reduced fuel costs. A much more significant concern is not having sufficient baseload resources available to meet the state's needs, particularly given the risks of an LMP market, high natural gas prices, or an otherwise volatile wholesale market. Simply put, it is much riskier to be a little short than a little long on capacity.

- **WPPI cautions against placing too much reliance on the EGEAS computer model results.** The EGEAS model, while a useful planning tool, does not account for a number of important considerations in determining an optimal resource expansion plan, such as the economic risks associated with delaying the ERGS units and the operational difficulty of combining wind turbines and conventional generation to provide reliable generation output. Such factors were apparently not considered in interpreting the EGEAS results. A broad perspective

needs to be applied when interpreting the EGEAS results, rather than simply accepting a plan produced by the model as the "optimal" plan.

- **The current economic environment is extremely favorable for developing high capital cost baseload projects.** Given the current economic conditions – low interest rates and low inflation – this is an excellent time to proceed with the development of a high capital cost project such as the ERGS units. The risk that significant cost overruns will be experienced is substantially lower in this environment. Conversely, delay risks pushing construction into a less favorable economic environment and would increase project cost risk substantially. For example, based on the lease calculation used in the draft EIS on page 26, the annual lease payment would increase by approximately 3.1% for each 100 basis point increase in the interest rate on 30-year corporate A rated bonds. An increase of 300 basis points would increase the annual lease payment by approximately 9.4%. Higher interest rates would likely also be accompanied by higher inflation rates, resulting in a double whammy on the base cost of construction of the project. Thus, the risks of delay overwhelm any perceived benefits of such delay in an "all else being equal" analysis.

- **While wind generation is definitely a promising renewable technology, at this time, it is not a dependable substitute for coal-fired baseload generation.** Wisconsin utilities should be encouraged to develop significant wind generation in the state. This will give the state experience with an increasingly viable technology. However, wind technology is still developing and its capability to function as a cost-effective baseload power source in Wisconsin has yet to be

demonstrated. It is not an alternative to proven baseload technology at this time. There are a number of uncertainties related to annual energy production, availability at time of peak demand, the economics of using combustion turbines to back up wind generation and the long-term reliability of wind generation compared to mature technologies such as the SCPC units proposed for use at ERGS. In addition, there are uncertainties about the interaction of large-scale wind farms with the bulk power system and the ability to site such farms in Wisconsin.

- **The ERGS facilities provide a hedge against early retirement of Wisconsin's nuclear power plants.** Wisconsin's nuclear power plant operating licenses all expire early next decade. While the NRC has recently been granting license extensions, there is no guarantee this trend will continue. Wisconsin could face a significant need for baseload resources if problems develop with these older units or the licenses are not extended. Waiting to decide on any new clean-coal baseload additions until the uncertainties with respect to our aging nuclear plants are fully resolved is a very risky strategy given inflation and interest rate risks, among others. Having baseload capacity in place by the end of the decade would substantially increase Wisconsin's flexibility in dealing with the complex issues that relicensing may raise.

- **The ERGS site is a brownfield site that is well suited for coal-fired generation.** Sites for major new generating facilities are difficult to find. The ERGS site is an existing plant site and use of the site avoids the need to construct at a greenfield site with much greater environmental impacts.

- **The risks of high natural gas prices and supply interruptions are not fully captured in EGEAS sensitivities reported in the draft EIS.** The draft EIS provides a good discussion of the historical relationship between natural gas and coal prices on pages 66 through 68. However, the high natural gas price sensitivity analyzed in the draft EIS is based on WEPCO's high natural gas price forecast, which assumed a 15% increase over the base natural gas price forecast. It is reasonable for WEPCO to use a conservative high natural gas price scenario when presenting their analysis supporting the ERGS proposal. To do otherwise would clearly invite criticism. However, in our view a 15% increase over the base natural gas price forecast does not adequately capture the significant risk that natural gas prices will be much higher than the base natural gas price forecast or that the supply of gas could be interrupted. Today natural gas prices are double what they were a year ago. WPPI suggests that a high natural gas price sensitivity should use a natural gas price forecast that is at least 50% over the base natural gas price forecast in order to capture the significant price and availability risks associated with natural gas.

  In addition, WPPI questions whether the CO_2 monetization sensitivity analyzed in the draft EIS incorporated a higher natural gas price forecast to account for the impact of a CO_2 tax. If a CO_2 tax were implemented generators could be expected to switch from coal to natural gas where feasible to avoid this tax. The result would be to increase the demand for natural gas and, in turn the price of natural gas. The effect of incorporating the potential impacts of a CO_2 tax on natural gas

prices would be to lower the relative cost penalty on coal-fired generation in the CO_2 tax monetization analysis.

- **The description air quality impacts of the proposed ERGS units in the Executive Summary is not complete.** In the discussion of air quality impacts on pages x and xxxi, the draft EIS concludes that the concentrations of SO_2 would increase dramatically, approaching 93% and 87% of NAAQS, respectively, as a result of the ERGS units. This discussion of air quality impacts is incomplete. It does not recognize, for example, that the air emissions from the proposed ERGS units will be far lower than the air emissions from any existing Wisconsin coal fired power plant or that the development of these facilities in conjunction with the future retirement of some existing coal plants will over time result in a substantial reduction in SO_2 and other pollutants from Wisconsin coal plants.

WPPI'S INTEREST IN PTF

WPPI is a municipal electric company serving 37 member municipalities that operate electric distribution utilities. WPPI's members purchase all of their electricity requirements from WPPI and serve approximately 140,000 customers. WPPI was formed by its members in 1980 pursuant to (now) Section 66.0825, Wisconsin Statutes, to achieve economies of scale in the acquisition of generation facilities, transmission service and in the purchase of electric power needed to provide their customers with safe, reliable and economic electric power and energy. WPPI initially supplied the power requirements of its members through power purchased at wholesale from the Wisconsin investor-owned utilities that previously supplied its members. Over the years, WPPI acquired some of its own power resources and blended those resources into a portfolio

that continues to include substantial wholesale purchases. At the present time, approximately 25% of WPPI's capacity requirements are satisfied from its owned resources. WPPI's projected 2003 system peak demand is 858 MW with energy requirements of 4,798 GWh.

Achieving greater supply independence is part of WPPI's long-term power supply strategy. This objective is particularly important given the uncertainties that exist as to the availability of long term wholesale power in the future. A key part of this strategy is to obtain additional baseload resources that allow WPPI more control of future costs. WPPI currently owns only one baseload resource - a 20% interest (107 MW) in Boswell Unit No. 4, a 535 MW coal-fired generating unit operated by Minnesota Power and located near Grand Rapids, Minnesota. Given the volatility of natural gas prices, WPPI believes coal-fired baseload generation is significantly more likely than other baseload options to provide a dependable supply of electricity at relatively stable prices. For this reason, WPPI negotiated with Wisconsin Energy Corporation ("WEC") and its affiliates to obtain an option to participate as an 8.33% owner in each of the three proposed ERGS units (approximately 50 MW in each unit), with a further option to increase WPPI's ownership to 10% (to approximately 60 MW in each unit) in the event that MGE elects not to exercise a similar option for ownership in the ERGS units.[1] This option will either be exercised or expire for a unit shortly after a CPCN is issued for that unit.

This option is very important to WPPI. WPPI is not large enough to obtain on its own the economies of scale that WEC will realize through the ERGS project. To obtain

[1] WEC seeks a CPCN for the entire PTF project and plans to proceed with the entire PTF project even if MGE and WPPI decline to exercise their options.

such economies of scale, WPPI must find partnership opportunities with other entities to pursue the development of large baseload generation.

In addition to the interest in potential ownership, WPPI is WEPCO's largest long term wholesale electric customer, with a contract that extends through April 25, 2025. WPPI's current purchase under this agreement is 210 MW, which is purchased on a take or pay basis pursuant to demand nominations made two years in advance. Under this arrangement, WPPI has agreed that the costs of the PTF coal units will be reflected in WEPCO's wholesale rates at the same lease cost that the PSC approves for recovery of PTF plant costs in retail rates. This agreement will treat wholesale and retail customers equitably and prevent any discrimination in either direction due to potentially different FERC and PSC rate treatments of the units. As a long term firm customer, WPPI is vitally interested in WEPCO's long term power costs. While construction of the PTF units will increase rates, WPPI is convinced that the projects offer better long term price stability than alternatives and therefore supports construction of the ERGS units.

COMMENTS ON EIS

For the reasons given below, WPPI believes its members and the state as a whole will benefit from the development of the proposed ERGS facilities.

- **Wisconsin Energy's proactive mitigation of potential adverse impacts on the competitiveness of the wholesale market should be commended and recognized as a significant benefit of the project.** The draft EIS correctly notes that by statute the Commission must determine prior to issuing a CPCN that a facility will not have a material adverse impact on competition in the relevant

wholesale electric service market. See Section 196.491(3)(d)7. In this case, WPPI believes that the "relevant" wholesale market is the long-term wholesale market for baseload capacity. The draft EIS, however, primarily analyzes the impact of the Facility Lease, and the rates at which capacity and energy from ERGS would be sold to WEPCO, on WEPCO's retail rates. The lease is not really a bona fide wholesale transaction; it is a financing structure.

While WPPI agrees that PSC regulation of the economic terms and conditions of the Facility Lease provides protection to retail ratepayers, WPPI believes that the draft EIS should also address the project's impact on the relevant wholesale market – the market for long term baseload capacity. An analysis of WEPCO's actions as they relate to the long-term wholesale capacity market discloses that WEPCO has addressed what otherwise would be significant adverse impacts of the ERGS proposal by offering ownership rights in the ERGS units to WPPI and MGE and offering average embedded cost pricing from its system to other small participants in the Wisconsin wholesale market.

WEPCO's affirmative mitigation efforts should be recognized in the EIS as a key element of the proposal. As a smaller load serving entity, WPPI's ability to provide price stability and reliable service to its customers over the long term is dependent upon a diversified resource portfolio. Although WPPI and other small load serving entities (LSEs) are able to compete with larger suppliers in many contexts, the barriers to entry into baseload capacity ownership are very steep. Small LSEs cannot achieve the economies of scale inherent in the ERGS units without joining larger entities, such as WEPCO, as partners. WPPI has sought

cost effective joint ownership opportunities in large baseload plants since its inception in 1980. WEPCO is only the second party to agree to WPPI's participation as an owner in a large scale project. The first such project – WPPI's 20% (107 megawatts) ownership share in Boswell No. 4 – is the backbone of our power supply. Without this resource, WPPI would not have become a viable power supplier. WPPI cannot predict when, if ever, an opportunity similar to WPPI's PTF option will materialize in the future.

Without the ability to participate as owners in large baseload projects like the ERGS units or to buy power at average embedded cost rates, the future viability of Wisconsin smaller utilities will be threatened and their consumers could be faced with significantly higher rates. By offering ownership rights in the ERGS units to WPPI and MGE and offering blocks of average embedded cost power from its system to other small participants that depend on the wholesale market, WEPCO has affirmatively addressed potential adverse competitive impacts on the wholesale market of the PTF proposal. The EIS should recognize WEPCO's initiative as a very positive step. WEPCO's agreements in this regard should be held by the Commission to be sufficient to meet WEPCO's obligation under the CPCN statute and further should be held up as an example to other large entities constructing baseload units as a desirable means to meet their statutory obligations to mitigate adverse impacts on the wholesale market.

- **The state needs significant new baseload generating capacity, and if there is an error in timing, it should be on the side of adding new baseload resources sooner rather than later.** There should be no dispute that Wisconsin

desperately needs additional baseload generation. The existing baseload fleet in the state is aging; Wisconsin has not added any new coal-fired generation in almost 20 years. New generation is required to meet continued load growth and offset inevitable unit retirements in the future. Further, Wisconsin's overtaxed and highly constrained transmission system cannot be relied on to import additional capacity and energy to satisfy Wisconsin's baseload requirements, which means additional baseload generating capacity must be built within the state.

On pages xxiv and xxv, the draft EIS compares WEPCO's forecast to the EIA MAIN forecast. From a planning perspective, the EIS should recognize there is really not much difference in the forecasts. The projected growth rates for the period 2002 to 2005 are 2.6% for energy use in the WEPCO forecast and 2.5% in the MAIN forecast. For the period 2005-2010, the WEPCO forecast is 2.6% and the MAIN forecast is 2.3%. These forecasts are sufficiently close that one can conclude that either forecast is reasonable to use for planning purposes. Certainly there is no basis to conclude WEPCO's proposal is unreasonable or that the difference in forecasts is material enough to change the outcome of the CPCN application. In any event, these load forecasts should not be the critical issue in this resource decision. The load in Wisconsin is growing, and substantial additional generating resources will be needed in the future. We will not know which load forecast is correct (or off by one or two percent per year) until the end of the decade, and by that time it may be too late to undertake this project in a way that will benefit consumers. The EIS should recognize it is important to

proceed now with the construction of new baseload facilities when interest rates are low and inflation is in check.

- **WPPI believes the draft EIS significantly overstates the impact of adding baseload capacity before it is actually needed.** On page 79, the draft EIS states, "If WEPCO were to pay WE Power for a coal plant that was constructed but not needed, WEPCO under the facility lease would have to pay an annual rent of $106.9 million. Using the job-loss-to-sales-tax-increase estimate from above would translate into a loss of about 3,700 jobs per year per unit." This calculation substantially overstates the impact of adding more coal capacity sooner than needed (if it ultimately proves that the capacity is brought on-line slightly earlier than a "just-in-time" in service date) for several reasons and does not take into account the long term economic benefits the ERGS would provide.

  First, because the ERGS units will be very efficient and produce energy at lower cost than most existing generating units, WEPCO's energy costs (fuel costs) will decrease due to the addition of an ERGS unit even if the capacity is not needed to meet WEPCO's planning reserve requirement. Second, even if all the capacity from an ERGS unit is not needed the year the unit goes in-service, WEPCO's power requirements will continue to grow. Based on WEPCO's current load growth rate of approximately 150 MW per year, there is little risk of overbuilding. While WEPCO might end up with a higher than optimal reserve margin for a short time, this result is inevitable when adding a new block of generation. This is no reason not to proceed. Given the size of WEPCO's system, WEPCO would grow into its entire share of an ERGS unit in a very short time. Finally, if there is

a short term surplus, WEPCO should be able to make additional wholesale sales to mitigate the impact on ratepayers. Clearly, some offsetting value can be achieved through short term off-system sales. In this regard, it is important to recognize that Wisconsin's transmission system is constrained for imports but not for exports. Thus, the impact on jobs from adding too much baseload capacity is likely to be considerably lower than the 3,700 jobs per year reported in the draft EIS and will be a temporary not a permanent phenomenon.

- **WPPI cautions against placing too much reliance on the EGEAS computer model results.** The EGEAS model, while a useful planning tool, does not account for a number of considerations important in determining an optimal resource expansion plan, such as the economic risks associated with delaying the ERGS units and the operational interaction of wind turbines and conventional generation. Such factors were apparently not considered in interpreting the EGEAS results. Ultimately, a broad perspective needs to be applied in interpreting the EGEAS results, not adherence to an optimal scenario from any particular model.

  In the draft EIS the EGEAS results (with wind potential limited to 250 MW) indicate that the optimal least cost plan would require 250 MW of wind for 2004, 300 MW of combustion turbines in 2007, and a 550 MW SCPC coal plant in 2009. These EGEAS results should not be accepted at face value. Rather, they should be interpreted with recognition of the limitations of the EGEAS model and the assumptions used in the model.

The EGEAS model is only one of a number of useful tools available to generation planners. It has strengths and limitations. One limitation of the model is its simulation of the system based solely upon the use of load duration curves. The model is not a detailed operational simulation of a power system. It does not present an hour-by-hour or real-time simulation of power system dispatch. As a consequence, it does not consider factors such as start-up time, ramp rates, and operating reserve requirements associated with the real-time operation of power systems. Second, the model is only as good as the input data. In the draft EIS, the input data does not differentiate between the relative dependability and technological maturity of the various supply alternatives considered. Thus, no distinction is made in the draft EIS between wind generation, which is a relatively unproven power source in Wisconsin, and mature technologies such as the SCPC units proposed for use at ERGS.

Based upon the EGEAS analysis results, the draft EIS concludes that WEPCO's proposed timing of the SCPC units in 2007 and 2009 is not least-cost under any scenario. Although this conclusion may follow from a strict adherence to the EGEAS model analysis result as presented in the draft EIS, this conclusion should be reconsidered based upon other factors, particularly risk factors, not analyzed by EGEAS. Given the clear need for Wisconsin to develop additional baseload coal-fired capacity and the current environment of low interest rates and low inflation, the state is presented with a historically exceptional opportunity to construct these units. There is a very substantial risk, not factored into the EGEAS analysis, that delaying these units by even one or two years could cause

their costs to increase substantially if the rate of inflation and/or interest rates increase. The risk of these rates rising from present levels is clearly much greater than the potential for decreases.

- **The materiality threshold should be $50 million not $10 million.** With respect to the interpretation of the EGEAS results, on page xxviii, the draft EIS states that the results of the analyses are based on a materiality threshold of $10 million. WPPI wonders why a $10 million threshold was selected. WPPI understands that a $50 million materiality threshold was used by Commission staff in the analysis of the Port Washington plants. Given the much greater capital investment associated with development of the proposed ERGS facilities, it is unreasonable to use a much narrower $10 million materiality threshold for the ERGS units. If the $50 million threshold is used here, under most sensitivities examined in the draft EIS there would be no material economic difference between the ERGS without the IGCC or the Calpine projects.

- **The current economic environment is extremely favorable for developing high capital cost baseload projects.** The capital costs of a large baseload coal plant are greater than many alternative technologies. If Wisconsin is to maintain fuel diversity into the future, it must build new clean coal plants at some point in the relatively near term. Given the current economic conditions – low interest rates and low inflation – now is an excellent time to proceed with the development of a high capital cost project in Wisconsin such as the ERGS units. Any significant delay in proceeding with the ERGS units significantly increases the risk that higher interest rates or inflation could affect the cost of the project to

the substantial detriment of Wisconsin consumers. The risk that significant cost overruns will be experienced is substantially lower in this environment. For example, based on the lease calculation used in the draft EIS on page 26, the annual lease payment would increase approximately 3.1% for each 100 basis point increase in the interest rate on 30-year corporate A rated bonds. An increase of 300 basis points would increase the annual lease payment by approximately 9.4% or for each unit add $10 million to the annual lease payment as calculated in the draft EIS.

In the draft EIS, a sensitivity is examined where the ERGS experiences a 20% capital cost overrun based (purportedly) on the significant cost overruns experienced during construction of WEPCO's Pleasant Prairie plant. The reasons for the cost overruns at the Pleasant Prairie plant are summarized on page 21 of the draft EIS. These reasons include higher-than-anticipated inflation, a high demand for labor and materials for power plant construction and a delay in the plant's start-up construction. The experience with the Pleasant Prairie plant in the early 1980's demonstrates the significance of these risks for what has turned out to be an excellent system addition despite the overrun. Rather than penalizing the ERGS alternative with 20% cost overrun sensitivity because of the Pleasant Prairie experience, the experience should be seen as strong support for proceeding with the ERGS proposal without delay.

In contrast, the draft EIS concludes that if coal plants were to have cost overruns of 20%, then the optimal expansion plan does not include a coal plant until 2014. While this analysis apparently is intended to provide a risk analysis, WPPI

believes that the risk of such an overrun is unlikely in the current environment of relatively low interest rates and low inflation, especially if construction proceeds under a fixed-price EPC contract as contemplated by WEPCO. The real risk of cost overruns will occur if construction of these plants is delayed, in which case delaying the in-service date until 2014 likely will result in a self-fulfilling prophecy compared to the current cost estimates for the project.

- **While wind generation is definitely a promising renewable technology, at this time, it is not a dependable substitute for coal-fired baseload generation.** Wisconsin utilities should be encouraged to develop significant wind generation in the state. We understand that WEPCO is already committed to 200 MW of wind. Other utilities are likely to follow suit without new legislation or regulatory mandates. However, wind is not yet a substitute for baseload generation. Wind technology is relatively untested in Wisconsin. There are a number of uncertainties related to annual energy production, availability at time of peak demand, the economics of using gas-fired generation to back up wind generation and the long-term reliability of wind generation compared to mature technologies such as the SCPC units proposed for use at ERGS. In addition, there are uncertainties about the interaction of large-scale wind farms with the bulk power system and the ability to site such farms in Wisconsin.

  The discussion on pages 59 and 60 of the draft EIS assumes wind turbines will achieve a 32.4% capacity factor in Wisconsin. WPPI believes this capacity factor exceeds what has been achieved at the best Wisconsin sites to date. The ability to achieve the capacity factors assumed in the draft EIS study have not been proven,

and the long-term reliability of Class IV wind machines in Wisconsin has also not been established.

On page 72, the EGEAS results conclude that Class IV wind competes favorably with SCPC units, assuming a wind tax credit. The prospects for future tax credits and the ability to site Class IV wind turbines in significant numbers and to achieve the assumed capacity factors are all uncertain. Thus, the long-term reliability, dependability and costs associated with Class IV wind turbines in Wisconsin, not to mention the ability to site units on this scale, are all uncertain. We need more experience with wind before depending on it as a substantial baseload capacity resource. We should first get that experience before relying on wind to supply our baseload power needs.

- **The ERGS facilities provide a hedge against early retirement of Wisconsin's nuclear power plants.** Wisconsin's nuclear power plant operating licenses all expire early next decade. Wisconsin faces risk in that all three nuclear units share the same design. If the NRC uncovers a problem with one unit, the (re)licensing of all three units may be in jeopardy. While the NRC has recently been granting license extensions, there is no guarantee this trend will continue. Very strong intervenor opposition to relicensing is likely. The loss of two out of three nuclear units today would have a devastating impact on Wisconsin's reliability. One only has to look back to 1997 to see the impact Wisconsin's nuclear power plants have on the state's reliability.

Given the long lead time to construct coal-fired baseload units, now is the time to proceed with the first two ERGS units. Wisconsin cannot replace the nuclear units and also meet all of the PTF requirements with gas and wind. Since replacements of nuclear may have to be installed quickly (i.e. with gas), doing the coal now makes great sense. The ERGS facility will provide an important hedge, helping to protect consumers from the potential adverse economic consequences of the retirement of existing baseload plants and providing the state with more flexibility to deal with what may be hard decisions in the future.

- **The ERGS site is a brownfield site that is well suited for coal-fired generation.** Sites for major new generating facilities are difficult to find. The ERGS site is an existing plant site and use of the site avoids the need to construct at a greenfield site with much greater environmental impacts. This site has the advantage of utilizing a significant amount of existing infrastructure and, given its location, provides the opportunity for substantial energy cost savings and emissions reductions through the ability to utilize once-thru cooling using the cold waters of Lake Michigan to increase the efficiency of the energy production at the plant.

- **The risks of high natural gas prices and supply interruptions are not fully captured in EGEAS sensitivities reported in the draft EIS.** The draft EIS provides a good discussion of the historical relationship between natural gas and coal prices on pages 66 through 68. However, the high natural gas price sensitivity analyzed in the draft EIS is based on WEPCO's high natural gas price

forecast, which assumed a 15% increase over the base natural gas price forecast. It is reasonable for WEPCO to use a conservative high natural gas price scenario when presenting their analysis supporting the ERGS proposal. To do otherwise would clearly invite criticism. However, in our view a 15% increase over the base natural gas price forecast does not adequately capture the significant risk that natural gas prices could be much higher than the base natural gas price forecast or that the supply of gas could be interrupted. Today natural gas prices are double what they were a year ago. WPPI suggests that a high natural gas price sensitivity should use a natural gas price forecast that is at least 50% over the base natural gas price forecast in order to capture the significant price and availability risks associated with natural gas.

In addition, WPPI questions whether the CO_2 monetization sensitivity analyzed in the draft EIS incorporated a higher natural gas price forecast to account for the impact of a CO_2 tax. If a CO_2 tax were implemented generators could be expected to switch from coal to natural gas where feasible to avoid this tax. The result would be to increase the demand for natural gas and, in turn the price of natural gas. The effect of incorporating the potential impacts of a CO_2 tax on natural gas prices would be to lower the relative cost penalty on coal-fired generation in the CO_2 tax monetization analysis.

- **The description of air quality impacts of the proposed ERGS units in the Executive Summary is not complete.** In the discussion of air quality impacts on pages x and xxxi, the draft EIS concludes that the concentrations of SO2 would increase dramatically, approaching 93% and 87% of NAAQS, respectively, as a

result of the ERGS units. The discussion of air quality impacts is incomplete. It does not recognize, for example, that the air emissions from the proposed ERGS units will be far lower than the air emissions from any existing Wisconsin coal fired power plant or that the development of these facilities in conjunction with the future retirement of existing coal plants will over time result in substantial reduction in SO2 and other pollutants from Wisconsin coal plant.

Dated this 13th day of June, 2003.

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